

Western Power Trading Forum Comments on the Day-Ahead Enhancements June 19 Working Group Presentation and Meeting

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The Western Power Trading Forum

The Western Power Trading Forum (WPTF) is a California nonprofit, public benefit corporation. It is a broad-based membership organization dedicated to enhancing competition in Western electric markets while maintaining the current high level of system reliability. WPTF supports uniform rules and transparency to facilitate transactions among market participants. The membership of WPTF and the WPTF CAISO Committee responsible for providing these comments include CAISO and EIM entities, load serving entities, energy service providers, scheduling coordinators, generators, power marketers, financial institutions, and public utilities that are active participants in the California market, other regions in the West, and across the country.

Summary

WPTF appreciates the opportunity to submit comments on the CAISO's working group held on June 19. WPTF remains very supportive of the initiative and the intent of the CAISO proposal. WPTF does not support the CAISO moving to a Draft Final Proposal at this time; WPTF cannot recall a market design change of this magnitude that was completed at this expeditious of a pace. There is still a significant learning curve that stakeholders, including WPTF, must be helped along prior to WPTF and many of its members being able to support the policy at the CAISO Board and FERC. Given the magnitude of changes being proposed, CAISO should strive for ensuring stakeholders fully understand the extent of market design changes and implications being considered. WPTF asks the CAISO for additional explanation on the following areas. WPTF understands that perhaps these questions have already been covered by the CAISO but seeks additional explanation as to the policy and pricing implications. Additionally, providing for another opportunity to engage in discussion with the CAISO is vital for stakeholders to understand what is being proposed. The questions below are important concepts that WPTF believes warrant additional CAISO explanation.

Detailed Comments

Day-ahead fifteen-minute market

1. It is WPTF's understanding that there are no metering requirement changes. If the CAISO does not require meter changes will CPUC jurisdictional LSEs be able to improve their meters and get cost-recovery? Why doesn't the CAISO want to require fifteen-minute metering? How will load serving entities be able to forecast load at the fifteen-minute level if they cannot meter at fifteen-minute granularity?
2. Can the CAISO provide evidence that it is able to produce an operational fifteen-minute forecast for load, wind, and solar that is reasonable? Can the CAISO provide evidence that this forecast produces fifteen-minute net load forecast that is closer to real-time fifteen-minute net load than the current hourly average forecast? WPTF understands and supports the theory behind the proposal, but supports other stakeholders request that this theory be borne out in practice prior to moving forward with tariff changes.

3. FERC has said in multiple orders that they want to align bidding and scheduling periods. What are the upsides and downsides of allowing fifteen-minute generator bids? The CAISO has said they do not believe costs change every fifteen-minutes¹, but WPTF would like to remind the CAISO that they run a market, which is not based on cost, but on a bid that reflects a resource's willingness to provide a product. Absent market power, a resource may bid whatever it wants up to the bid cap. Forces completely outside the near-term CAISO market, such as risks, bilateral opportunities, transmission/fuel costs or resale opportunities etc. may inform a resources willingness to provide at product at the fifteen-minute granularity. WPTF is neither supportive nor opposed to fifteen-minute generator bidding but is certainly opposed to the idea that absent market power the CAISO has the authority to mandate or should design policy around a cost-based bid. Cost-based bidding directly conflicts the market design elements recently proposed in the CAISO's Commitment Cost and Default Energy Bid Enhancements policy.

Combining IFM and RUC

1. WPTF would like further explanation of how the CAISO will co-optimize the entire resource cost under the combined IFM and RUC proposal. Based on the documentation provided, it appears Pmin energy of all resources providing the DA FRP product will impact the LMP. This is significantly different than the current DA market where no RUC commitments impact the LMP. In the future it is WPTF's understanding that resources with both non-binding and binding commitments for the DA FRP will have their Pmin energy impact the LMP. This seems odd because that implies that committing a resource for uncertainty in real-time will lower the DA LMP. WPTF asks the CAISO to include a policy and price formation discussion around the impacts of combining IFM and RUC in the next stakeholder paper. Or if the CAISO is going to exclude DA FRP Pmin energy from the LMP, WPTF would like to see those changes reflected in the DA market formulation.
2. WPTF would like additional explanation on the benefits and risks of procuring DA FRP according to an asymmetrical demand curve in the upward and downward direction. An asymmetrical demand curve implies the CAISO is more willing to be short in one direction relative to the other. Given the expected penetration of renewables WPTF believes that this asymmetrical value on directional movement should be discussed conceptually prior to its implementation as it will impact both prices and risks of over-supply in real-time. Also- as noted during the meeting, WPTF believes that under the current design proposal, the CAISO should procure the DA FRP at least up to the CAISO Forecast of CAISO Demand and use a demand curve from that point.

DA Flexible Ramping Product

1. WPTF notes that the CAISO has renamed the IRP product a DA FRP product, but that does not make it the same thing as the RT FRP product. The DA FRP requires a resource to bid into a next-day physical market without much certainty that they will be taken, but requires that the resource be able to show up and produce energy if needed. An internal resource could be exposed to gas price risk; an external resource could be exposed to transmission price risk or at a minimum opportunity cost. These risks are not present with RT FRP as it is procured within the

¹ <http://www.caiso.com/Documents/CommentsMatrix-Day-AheadMarketEnhancements-RevisedStrawProposal.pdf>, page 11.

same-day physical market. Therefore, there are some differences between the DA FRP and RT FRP. WPTF believes there should be additional discussion at the conceptual level of the intent behind both the DA and RT FRP, especially as the CAISO finalizes the bidding and buy-back rules.

Reoptimizing Ancillary Services in Real-Time and other Ancillary Service Changes

1. The CAISO stated reoptimizing ancillary services in real-time had been discussed previously when WPTF asked at the June 19 meeting, and so moved through the proposal very quickly. WPTF asks that the CAISO present the proposal as if from the beginning and walk stakeholders through the policy considerations (i.e. reason for this change) and pricing implications of reoptimizing ancillary services. It would be helpful for the CAISO to explain, rather than point to the spreadsheet, how bids and awards may change between DA and RT. Reoptimizing ancillary services in real-time fundamentally changes what it means to provide and procure ancillary services in the day-ahead. This element of the proposal should not be without significant detailed discussion.
2. Likewise, WPTF asks the CAISO to walk through the proposal to bid \$0 for spin and non-spin in RT if the resource has a DA IRP award. WPTF is concerned that this proposal was missed by a significant number of stakeholders and has significant consequences on both existing and potential entities; entities developing batteries are using forecasts of ancillary service prices to get financing for their projects and such a change would have significant impacts on the viability of their projects. WPTF is also uncertain how the mechanics will work- does this proposal for example mean that a resource could have a two-part spin bid, where some MWs are bid in at \$0 and some at a greater than \$0 price?

Resource Adequacy

1. The CAISO has stated the exact meaning of “RA resource” is still being decided as to which RA resources will have to bid \$0 for the DA FRP (and therefore potentially \$0 for spin and non-spin in RT). WPTF does not support a \$0 mandated bid for any energy market product- especially not for only a select portion of resources. At a minimum WPTF believes the CAISO should contain the discussion to Flexible RA capacity, rather than all RA resources.

Other topics

1. The CAISO stated several times during the June 19 meeting that the optimization will ensure that a resource cannot be worse off by providing DA FRP, as compared to not providing it. WPTF would like the CAISO to clarify this remark. While it is true a resource may be paid their opportunity cost for energy, there is nothing in the optimization that maximizes generator revenues. The optimization will minimize total costs but maximizing generator revenues is not what Lagrangian duality implies. The way a generator can maximize their revenues is through accurately representing both their willingness to provide a product, but also their relative willingness to provide that product compared to other products, all while considering both the DA and RT grid conditions. Allowing resources to provide a bid for a product ensures that resources that are “the best” at providing products are the ones who are most frequently scheduled to provide those products. WPTF would appreciate further discussion around the CAISO’s reasoning and intent behind each new bidding rule within this proposal.
2. The CAISO briefly mentioned potentially staging the changes in the proposal over time, and WPTF believes that not only should implementation be staged, but potentially the policy. Items

like market power mitigation for CME alone seem like they could be their own initiative, and it would be helpful to be able to focus on key changes that may otherwise get lost in such a massive initiative.

3. WPTF is concerned that the uncertainty product could prevent willing buyers and sellers from transacting in the DA market, an issue brought up by the CAISO DMM. WPTF asks that the CAISO directly address this issue at the next meeting.

WPTF thanks the CAISO for consideration of our comments.